



MCI Communications  
Corporation  
1801 Pennsylvania Ave., NW  
Washington, DC 20006  
202 887 2601

Donald Evans  
Director  
Regulatory Affairs

EX PARTE OR LATE FILED

ORIGINAL

RECEIVED

DEC 18 1992

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

ORIGINAL  
FILE

December 18, 1992

Ms. Donna Searcy  
Secretary  
Federal Communications Commission  
Room 222  
1919 M Street, N.W.  
Washington, D.C. 20554

EX PARTE

Re: CC Docket 92-101

Dear Ms. Searcy:

The attached written ex parte letters were sent to the Commissioners and their staff. Please include a copy of this notice of ex parte contact and the attached in the record of this proceeding.

Sincerely,

  
Donald E. Evans

No. of Copies rec'd 041  
List A B C D E



**MCI Communications  
Corporation**

1801 Pennsylvania Avenue, NW  
Washington, DC 20006  
202 887 2720

Daniel F. Akerson  
President and  
Chief Operating Officer

**RECEIVED**

**DEC 18 1992**

**FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY**

December 17, 1992

The Honorable Alfred Sikes  
Chairman  
Federal Communications Commission  
1919 M Street, NW  
Washington, D.C. 20554

Dear Chairman Sikes:

Two years ago, the FCC adopted price cap regulation for the local exchange carriers (LECs). One critical element in the FCC's reasoning was that price caps would give the LECs incentives similar to other American corporations to control their costs. Although MCI opposed several details of the plan finally adopted, we did agree that changes in the method of regulation could be beneficial.

The LECs have thrived under price cap regulation. Their profits have been high throughout the current recession to the benefit of their shareholders. As an industry, they have one of the highest operating margins in the economy. Furthermore, under price cap regulation, the reductions in LEC prices ordered by the FCC have been far smaller than under rate of return regulation. Now, in the face of a challenge to manage a change in accounting for post-retirement benefits, the LECs are coming to you to get relief from the very method of regulation that they advocated. I would like to provide you with a customer's perspective on this question.

The FASB 106, post-retirement benefits, have been negotiated by the LECs through collective bargaining and thus, are obligations that the LECs entered into freely. These costs are plainly within the control of the LECs and should not merit exogenous treatment. Further, as MCI has demonstrated on the record of this proceeding, the economic underpinnings of the LECs' arguments are suspect.

Other U.S. companies, operating in competitive markets, are handling the FASB 106 adjustments. The LECs, with virtually no competition in their markets, want you to allow them to raise the rates assessed on their captive customers so that they do not have to face the decisions



The Honorable Alfred Sikes  
December 17, 1992  
Page Two

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It is MCI's understanding from LEC ex parte letters that after the U.S. Telephone Association was told that the FCC's expert staff would recommend against the LEC proposal for exogenous treatment, they organized a lobbying campaign that included many LEC officers writing or calling the Commission. I urge you to reject the last minute claims of the LECs and not adjust price caps upward at the expense of American consumers and businesses. Thank you.

Sincerely,

*Daniel F. Axelson*



**MCI Communications  
Corporation**

1801 Pennsylvania Avenue, NW  
Washington, DC 20006  
202 887 2720

Daniel F. Akerson  
President and  
Chief Operating Officer

December 17, 1992

Mr. Andrew C. Barrett  
Commissioner  
Federal Communications Commission  
1919 M Street, NW  
Washington, D.C. 20554

Dear Commissioner Barrett:

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Commissioner Andrew C. Barrett  
December 17, 1992  
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Sincerely,

*Daniel F. Aronson*



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Corporation**

1801 Pennsylvania Avenue, NW  
Washington, DC 20006  
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Daniel F. Akerson  
President and  
Chief Operating Officer

December 17, 1992

Mr. Ervin S. Duggan  
Commissioner  
Federal Communications Commission  
1919 M Street, NW  
Washington, D.C. 20554

Dear Commissioner Duggan:

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Sincerely,

*Harold F. Hanson*



**MCI Communications  
Corporation**

1801 Pennsylvania Avenue, NW  
Washington, DC 20006  
202 887 2720

Daniel F. Akerson  
President and  
Chief Operating Officer

December 17, 1992

Sherrie P. Marshall  
Commissioner  
Federal Communications Commission  
1919 M Street, NW  
Washington, D.C. 20554

Dear Commissioner Marshall:

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Commissioner Sherrie P. Marshall  
December 17, 1992  
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Sincerely,

*Daniel F. Friedman*



**MCI Communications  
Corporation**

1801 Pennsylvania Avenue, NW  
Washington, DC 20006  
202 887 2720

Daniel F. Akerson  
President and  
Chief Operating Officer

December 17, 1992

Mr. James H. Quello  
Commissioner  
Federal Communications Commission  
1919 M Street, NW  
Washington, D.C. 20554

Dear Commissioner Quello:

Two years ago, the FCC adopted price cap regulation for the local exchange carriers (LECs). One critical element in the FCC's reasoning was that price caps would give the LECs incentives similar to other American corporations to control their costs. Although MCI opposed several details of the plan finally adopted, we did agree that changes in the method of regulation could be beneficial.

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Commissioner James H. Quello  
December 17, 1992  
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Sincerely,

*Daniel F. Herman*



**MCI Communications  
Corporation**

1801 Pennsylvania Ave., NW  
Washington, DC 20006  
202 887 2601

Donald Evans  
Director  
Regulatory Affairs

December 18, 1992

**Ms. Madelon A. Kuchera  
Federal Communications Commission  
1919 M Street N.W.  
Washington, D.C. 20554**

**Dear Ms. Kuchera:**

I am writing to you to expand on some points made in the letter sent today from Dan Akerson, President of MCI, to the FCC Chairman and Commissioners concerning exogenous price cap treatment of SFAS 106 adjustments.

The local exchange carriers (LECs) have repeatedly argued that the accounting change made under SFAS 106 is beyond their control. This argument ignores the most essential fact. The post-retirement benefits at issue were incurred by the LECs as a result of decisions they made during wage negotiations. Like the wages, themselves, the amounts and types of benefits were not beyond the control of the LECs. Other choices and combinations of pay or benefits were at their disposal. It is wrong to say that the situation that the LECs face today is the result of Destiny.

FASB 106 only requires the LECs which voluntarily elect to provide post-retirement benefits to recognize such expenses, not fund them. In short, FASB 106 is a non-cash event. This is clearly pointed out by the fact that there is no Federal statute requiring the LECs to fund post-retirement benefits, unlike the situation with pensions.

The FASB changes should be treated under price caps as endogenous changes. A number of parties in this proceeding have explained this. Endogenous factors are not limited to those that are favorable to LEC earnings, nor can they be only events that are predictable or certain. Part of the theory of price caps is that the LECs will manage these events, acting as profit making, cost minimizing economic entities. This is a system of regulation and, as such, cannot be one-sided. It is doubtful though, that if there was a change potentially favorable to consumers, the LECs would so vigorously pursue a reduction in price caps.

There may be many instances where LEC practices disfavor customers or where expenses are unreasonable. The FCC was



Ms. Madelon A. Kuchera  
December 18, 1992  
Page Two

urged to review the reasonableness of LEC costs when pricecaps were instituted. The FCC refused to do so. It is overwhelmingly unfair to ratepayers that the FCC would only revisit expense levels when the LECs will gain.

For purposes of computing rate of return and sharing, the Commission should instruct the LECs to take this expense below the line. Anything else would result in reduced sharing amounts and, therefore, would leave ratepayers funding the LECs' voluntary obligation. The LEC analyses in this proceeding suggest that the LECs have undertaken extraordinary obligations for these benefits. The intense efforts to adjust price caps to account for these should raise a red flag as to the reasonableness of these expenses.

In our comments, MCI addressed another argument that has been raised by the LECs in the FAS 106 proceeding, specifically, whether there is financial risk to them associated with this change. MCI showed that the markets have already taken FASB 106 into consideration and this fact was implicitly recognized in the current rate of return prescription. Any allegations that there will be effects on LEC stock must be considered in that light. In fact, even with the uncertainty that LECs would be able to recover post-retirement benefit costs (recall that LEC ex parte letters indicate the staff proposal was known publicly), their stocks have not suffered.

If price caps are really a form of incentive regulation, the FCC must understand that its decision here will further refine those "incentives". The incentive created will be for the LECs to revisit the price cap rules every time their costs increase, irrespective of the control they did, or could have, exercised. Allowing this FASB adjustment excuses the LECs from cost responsibility and erodes the limited protections that exist for monopoly customers.

Sincerely,

A handwritten signature in black ink, appearing to read "Donald F. Evans". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Donald F. Evans  
Director  
Federal Regulatory Affairs



**MCI Communications  
Corporation**

1801 Pennsylvania Ave., NW  
Washington, DC 20006  
202 887 2601

Donald Evans  
Director  
Regulatory Affairs

December 18, 1992

**Ms. Pete Belvin  
Federal Communications Commission  
1919 M Street N.W.  
Washington, D.C. 20554**

**Dear Ms. Belvin:**

I am writing to you to expand on some points made in the letter sent today from Dan Akerson, President of MCI, to the FCC Chairman and Commissioners concerning exogenous price cap treatment of SFAS 106 adjustments.

The local exchange carriers (LECs) have repeatedly argued that the accounting change made under SFAS 106 is beyond their control. This argument ignores the most essential fact. The post-retirement benefits at issue were incurred by the LECs as a result of decisions they made during wage negotiations. Like the wages, themselves, the amounts and types of benefits were not beyond the control of the LECs. Other choices and combinations of pay or benefits were at their disposal. It is wrong to say that the situation that the LECs face today is the result of Destiny.

FASB 106 only requires the LECs which voluntarily elect to provide post-retirement benefits to recognize such expenses, not fund them. In short, FASB 106 is a non-cash event. This is clearly pointed out by the fact that there is no Federal statute requiring the LECs to fund post-retirement benefits, unlike the situation with pensions.

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Sincerely,

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Donald F. Evans  
Director  
Federal Regulatory Affairs



**MCI Communications  
Corporation**

1801 Pennsylvania Ave. NW  
Washington, DC 20006  
202 887 2601

Donald Evans  
Director  
Regulatory Affairs

December 18, 1992

Ms. Linda L. Oliver  
Federal Communications Commission  
1919 M Street N.W.  
Washington, D.C. 20554

Dear Ms. Oliver:

I am writing to you to expand on some points made in the letter sent today from Dan Akerson, President of MCI, to the FCC Chairman and Commissioners concerning exogenous price cap treatment of SFAS 106 adjustments.

The local exchange carriers (LECs) have repeatedly argued that the accounting change made under SFAS 106 is beyond their control. This argument ignores the most essential fact. The post-retirement benefits at issue were incurred by the LECs as a result of decisions they made during wage negotiations. Like the wages, themselves, the amounts and types of benefits were not beyond the control of the LECs. Other choices and combinations of pay or benefits were at their disposal. It is wrong to say that the situation that the LECs face today is the result of Destiny.

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Ms. Linda Oliver  
December 18, 1992  
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Donald F. Evans  
Director  
Federal Regulatory Affairs



**MCI Communications  
Corporation**

1801 Pennsylvania Ave. NW  
Washington, DC 20006  
202 887 2601

Donald Evans  
Director  
Regulatory Affairs

December 18, 1992

**Ms. Kathleen Abernathy  
Federal Communications Commission  
1919 M Street N.W.  
Washington, D.C. 20554**

**Dear Ms. Abernathy:**

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December 18, 1992  
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Donald F. Evans  
Director  
Federal Regulatory Affairs



**MCI Communications  
Corporation**

1801 Pennsylvania Ave NW  
Washington, DC 20006  
202 887 2601

Donald Evans  
Director  
Regulatory Affairs

**December 18, 1992**

**Ms. Charla Rath  
Federal Communications Commission  
1919 M Street N.W.  
Washington, D.C. 20554**

**Dear Ms. Rath:**

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Ms. Charla M. Rath  
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For purposes of computing rate of return and sharing, the Commission should instruct the LECs to take this expense below the line. Anything else would result in reduced sharing amounts and, therefore, would leave ratepayers funding the LECs' voluntary obligation. The LEC analyses in this proceeding suggest that the LECs have undertaken extraordinary obligations for these benefits. The intense efforts to adjust price caps to account for these should raise a red flag as to the reasonableness of these expenses.

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If price caps are really a form of incentive regulation, the FCC must understand that its decision here will further refine those "incentives". The incentive created will be for the LECs to revisit the price cap rules every time their costs increase, irrespective of the control they did, or could have, exercised. Allowing this FASB adjustment excuses the LECs from cost responsibility and erodes the limited protections that exist for monopoly customers.

Sincerely,

A handwritten signature in black ink, appearing to read "Donald F. Evans", with a long, sweeping horizontal line extending to the right.

Donald F. Evans  
Director  
Federal Regulatory Affairs



**MCI Communications  
Corporation**

1801 Pennsylvania Ave. NW  
Washington, DC 20006  
202 887 2601

Donald Evans  
Director  
Regulatory Affairs

December 18, 1992

**Ms. Sherrie P. Marshall  
Commissioner  
Federal Communications Commission  
1919 M Street N.W.  
Washington, D.C. 20554**

**Dear Commissioner Marshall:**

I am writing to you to expand on some points made in the letter sent today from Dan Akerson, President of MCI, to the FCC Chairman and Commissioners concerning exogenous price cap treatment of SFAS 106 adjustments.

The local exchange carriers (LECs) have repeatedly argued that the accounting change made under SFAS 106 is beyond their control. This argument ignores the most essential fact. The post-retirement benefits at issue were incurred by the LECs as a result of decisions they made during wage negotiations. Like the wages, themselves, the amounts and types of benefits were not beyond the control of the LECs. Other choices and combinations of pay or benefits were at their disposal. It is wrong to say that the situation that the LECs face today is the result of Destiny.

FASB 106 only requires the LECs which voluntarily elect to provide post-retirement benefits to recognize such expenses, not fund them. In short, FASB 106 is a non-cash event. This is clearly pointed out by the fact that there is no Federal statute requiring the LECs to fund post-retirement benefits, unlike the situation with pensions.

The FASB changes should be treated under price caps as endogenous changes. A number of parties in this proceeding have explained this. Endogenous factors are not limited to those that are favorable to LEC earnings, nor can they be only events that are predictable or certain. Part of the theory of price caps is that the LECs will manage these events, acting as profit making, cost minimizing economic entities. This is a system of regulation and, as such, cannot be one-sided. It is doubtful though, that if there was a change potentially favorable to consumers, the LECs would so vigorously pursue a reduction in price caps.

There may be many instances where LEC practices disfavor customers or where expenses are unreasonable. The FCC was



Commissioner Sherrie P. Marshall  
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urged to review the reasonableness of LEC costs when pricecaps were instituted. The FCC refused to do so. It is overwhelmingly unfair to ratepayers that the FCC would only revisit expense levels when the LECs will gain.

For purposes of computing rate of return and sharing, the Commission should instruct the LECs to take this expense below the line. Anything else would result in reduced sharing amounts and, therefore, would leave ratepayers funding the LECs' voluntary obligation. The LEC analyses in this proceeding suggest that the LECs have undertaken extraordinary obligations for these benefits. The intense efforts to adjust price caps to account for these should raise a red flag as to the reasonableness of these expenses.

In our comments, MCI addressed another argument that has been raised by the LECs in the FAS 106 proceeding, specifically, whether there is financial risk to them associated with this change. MCI showed that the markets have already taken FASB 106 into consideration and this fact was implicitly recognized in the current rate of return prescription. Any allegations that there will be effects on LEC stock must be considered in that light. In fact, even with the uncertainty that LECs would be able to recover post-retirement benefit costs (recall that LEC ex parte letters indicate the staff proposal was known publicly), their stocks have not suffered.

If price caps are really a form of incentive regulation, the FCC must understand that its decision here will further refine those "incentives". The incentive created will be for the LECs to revisit the price cap rules every time their costs increase, irrespective of the control they did, or could have, exercised. Allowing this FASB adjustment excuses the LECs from cost responsibility and erodes the limited protections that exist for monopoly customers.

Sincerely,

A handwritten signature in dark ink, appearing to read "Don Evans", with a long, sweeping horizontal line extending to the right.

Donald F. Evans  
Director  
Federal Regulatory Affairs